RESULTS AND FOLLOWUP OF GATT MINISTERIAL MEETING

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

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RESULTS AND FOLLOWUP OF GATT MINISTERIAL MEETING

TUESDAY, FEBRUARY 22, 1983

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, D.C.

The subcommittee met at 10:30 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

[Press release announcing the hearing follows:]

[Press release of Wednesday, Feb. 2, 1983]

HON. SAM M. GIBBONS (D.-FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES HEARING FEBRUARY 22, 1983, ON THE RESULTS OF THE GATT MINISTERIAL AND FUTURE OF THE MULTILATERAL TRADING SYSTEM

The Honorable Sam M. Gibbons (D.-Fla.), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee will hold a hearing on results and follow-up of the Ministerial meeting of the Contracting Parties to the General Agreement on Tariffs and Trade (GATT) held in November 1982. The hearing will be held on Tuesday, February 22, 1983, beginning at 9:30 a.m. in room 1100 Longworth House Office Building.

Ambassador William E. Brock, the U.S. Trade Representative and head of the U.S. delegation to the GATT Ministerial, will be the sole witness. Representatives of the private sector may be heard at a later date.

The hearing will focus particularly on an assessment of the results of the GATT Ministerial, the implementation of a GATT work program, and how major issues affecting the operation and viability of the GATT multilateral trading system might be addressed in the post-Ministerial period.

Chairman GIBBONS. This is a meeting of the Subcommittee on Trade of the Committee on Ways and Means.

We are here this morning to discuss with Ambassador Brock, our U.S. Trade Representative, his impressions and the results of the ministerial meeting of the GATT that was held last year.

First of all, Ambassador Brock, I wish to praise you for your leadership, commend you for your leadership in the calling of this meeting, and the attention that you gave to it. I know meetings do not always come at the opportune time, and it is sometimes a stroke of luck to determine when an opportune time is, but meetings must be held and attempts to move forward must always be made, even if they are unpopular, because if we don't move forward in an area such as this, we are going to move back.

I have some general impressions that I will state now about the meeting.

It was timely that it was held. It was unfortunate the world economy was down. Everyone was so depressed and looking after their own problems, that they could not look forward, and that is one of the traits of human nature.

One of the things that is most sobering to me about any of these meetings, is that when you get together you realize that the threads that hold civilization together are thin, and they won't stand excessive abuse. We don't have the leisure to move forward slowly. We must move forward constructively.

I commend you for your leadership again, for the holding of this meeting and your participation in it. I would be glad to hear from you now, unless Mr. Jenkins has something he wishes to say.

Mr. JENKINS. Thank you, Mr. Chairman. I, too, want to commend the Ambassador for his untiring efforts on behalf of international trade.

While I have a lot of sensitive trade areas I am interested in, as do all Members of Congress, you have done an excellent job. I commend you for your efforts.

Chairman GIBBONS. So, Mr. Ambassador, you may proceed as you wish.

STATEMENT OF AMBASSADOR WILLIAM E. BROCK, U.S. TRADE REPRESENTATIVE

Mr. BROCK. Thank you very much, Mr. Chairman.

I am personally grateful for the comments which both of you made.

I must admit that the timing was not propitious, and that is the first Thanksgiving that I can recall that I was away from my children. I did not relish that particularly, but, in a number of other ways, it was a difficult time.

Maybe that is the important point I would like to stress at the outset of these comments, and, if I may, Mr. Chairman, I will submit a full text for the record.

Chairman GIBBONS. Certainly. Your full text will be included.

Mr. BROCK. Thank you.

We have had 35 years in pursuit of freer trade policies, and the obvious consequence of that is a stronger United States. This pursuit of freer trade has been a key to the spectacular growth we have had in the three or four decades since World War II, and particularly in recent years. For example, four out of five of our new manufacturing jobs have been created through international trade, and one out of three acres planted by American farmers is producing crops for export. Two trillion dollars' worth of goods and services are currently being traded internationally, and the potential for growth is unlimited.

We are the best prepared people in the world to take advantage of these opportunities, in my judgment. Unfortunately, however, in many ways trade and trade policy have become a scapegoat for a lot of domestic ills, and the consequence is fairly obvious: some have adopted almost a fortress mentality, a desire to protect ourselves from competition. Frankly, the consequence of that would mean more Government intervention, to divide up an even smaller economic pie.

It is interesting in the light of all of the comments about trade, and the protectionist craze, that our trade data reveal that the United States has performed as well or better than our major international trading partners.

We have been hurt less by the recession that has hurt virtually all of our trading partners, and it appears, and most economists seem to agree, that we will be the first to emerge from the recession.

We are already beginning to see early signs of recovery in housing, automobile sales, industrial output, orders for durable goods, shrunken inventories, and finally, and tragically almost, despite the lateness, unemployment has begun to decline.

Of course, unemployment is still too high, and we are diligently working to reduce it. But it is, in fairness, far less than that of our trading partners, and we have created a sufficient number of new jobs to handle the millions of persons who have entered the job market over the past 10 years, particularly young people and women.

We created 17 million jobs in the 1970's, and no nation has equaled that record.

Part of the real and continuing strength of the U.S. economy has been veiled by shifts in exchange rates. However, declining U.S. interest rates and signs of a stronger world economy are beginning to be felt.

The dollar has declined substantially in recent months against the currencies of our key industrial trading partners with the exception of Great Britain in the past 3 months, auguring well for renewed U.S. export competitiveness.

The sensitive debt situation of the developing countries has also had a negative effect on U.S. trade. However, even during the times of fluctuating exchange rates, an uneven dollar abroad, the LDC debt problem, the United States has managed to maintain its share of world trade and total world exports. In fact, our share of world export has grown from 11.9 percent 5 years ago to 13.3 percent as of last summer.

Moreover, in these last 12 years, from 1970 through 1981, although we experienced a cumulative deficit in merchandise trade, our cumulative current account surplus exceeded $60 billion, more than that of any other industrial country.

Finally, while some were being critical of our policies for not bringing on recovery quickly enough, the rest of the world held a different perspective. Inflation in 1980 in the United States was 13½ percent; today it is 3.9. During that same period in France it went from 13½ to only 10.8; in Italy, 21 to 16; Great Britain, 18 to 8; and Brazil, 183 to 197 percent.

Interest rates in the world have also not declined as much as ours. Simply stated, in spite of our problems, we entered the ministerial meeting in a stronger position economically than our fellow trading partners.

That is the important point, because that is the atmosphere in which we approached the ministerial meeting.

Worldwide recession, unprecedented unemployment and debt service problems led to a reluctance on the part of our trading partners to move toward freer trade policies.

Had we not shown ambitious leadership, there would have been no prospect for success at all.

Trade liberalization remains a common objective of all GATT members and will continue to be pursued by the United States with that structure, so I guess in light of the climate, the atmosphere, while we achieved a good deal in Geneva, we obviously did not achieve what we would like.

At the outset, we had two objectives: First, to restore a sense of political will, momentum and commitment to the international trading system itself; second, to link the reaffirmation of political will to procedures that would back up the promises.

We moved closer to fulfilling both objectives which, considering the economic circumstances, was a significant step.

Perhaps our most important achievement was in keeping the GATT system together and moving in a positive direction. In this regard, I would cite as a principal achievement the political commitment made by the contracting parties to, and I quote, "refrain from taking or maintaining any measures inconsistent with GATT."

In addition, we made progress in the areas of safeguards, dispute settlements, and even in agriculture. We drew attention to, without achieving as much results as we had hoped, those problems that have been mentioned here, north-south relations, high technology, trade-related investments and services.

Implementation of the decisions made by the ministers in Geneva began at the GATT council meeting on January 26. The course of action for each individual decision was approved, and work proceeded without delay.

As we proceed with our objectives, we expect to meet reluctance and some opposition. There may be those who advocate retrenchment and retreat, and similarly and perhaps ironically we face the same opponents here at home who advocate less free trade, not more—Cassandras who wish to put off the tough decisions of adjustment and return to a world of protective barriers.

As we did in Geneva, we will continue to vigorously oppose protectionism at home that would damage our productive future and distort world and American adjustment prospects.

I do want, at the same time, to reiterate the fact that we will not sit on our hands if other governments act in such a way as to injure U.S. workers and industries. Just as we do not intend to shift our unemployment to other countries, we do not intend to allow other countries to shift their unemployment to us. We will act to defend and advance the legitimate economic interests of the United States in the international trading system.

In short, we intend to proceed along the three paths which we outlined in our trade policy paper submitted in July of 1981.

One, we will continue to seek effective and persistent negotiations with other countries to remove trade barriers and unfair trade practices abroad which burden U.S. exports.

Two, we will continue to insist on effective enforcement and, where necessary, strengthening of U.S. trade laws to help insure that U.S. industries compete on a fair and equal basis in international markets.

Three, we will continue to pursue economic policies at home that will allow the U.S. economy to adjust to wealth-creating innovation.

Our success will be measured not in laws or lofty policy statements, but in jobs, growth, and real income. These are not a set of promises; they are a set of challenges.

At the same time, it is important that the United States continue its vigorous efforts to strengthen the international trading system. Our leadership is essential. We must stop the drift toward short-term, inward-looking policies which risk a repeat of the disasters of the 1930's, when protectionism and trade wars eventually led to unprecedented suffering.

Protectionism cannot serve to settle disputes. It can no longer be the concern of great powers alone; for retaliation, spread by waters and winds and fear, could well engulf the great and the small, the rich and the poor, the committed and the uncommitted.

We must put an end to the spread of worldwide protectionism, or protectionism will put an end to our economies. We either trade more and create more employment, or we trade less and create unemployment. Our choice is clear.

Only through the expansion of trade can we hope to create more long-term job opportunities in growing, flexible industries and sectors. Our current employment problems demand that we compete successfully with the rest of the world. Achievement of this goal will not be a victory for one party or one side, but for the Nation.

In sum, Mr. Chairman, as I left Geneva in some considerable sense of frustration, the more I draw away from that process, the more convinced I am of the necessity for us to have done what we did to provide the leadership that we did, and of the contribution that this administration and this Congress made to the international trading system by our efforts.

I think we made a good deal of progress. I think we have a lot more to do, and it will require a continuing strong effort on behalf of both of us to insure that there is a system in place that can allow us to do more business with one another and to create the jobs that this world is going to have to create if we are going to solve our economic difficulties.

I would be delighted to respond to your questions.

[The prepared statement follows:]

STATEMENT OF AMBASSADOR WILLIAM E. BROCK

The issue on the minds of all Americans, of all Members of Congress, is clearly U.S. employment. No economic subject considered during the 98th Congress will be discussed without first determining how it will help create permanent, productive American jobs.

Trade represents not the exception, but the opportunity. A steady increase in the volume of exports and imports is central to the creation of new, more stable employment, higher real income, and a healthy economy. In short, effective trade policies will put more Americans back to work.

Thus, no discussion of the results of the GATT Ministerial Meeting in Geneva would be adequate without addressing some of the most pressing questions facing the American people and Congress today. To fairly evaluate the United States' role in the GATT Ministerial meeting, we must first put our economic considerations in perspective.

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THE IMPORTANCE OF TRADE

The reality is that thirty-five years of world leadership in persuit of freer trade policies have made us stronger economically; they are essential to our continued growth and strength.

In recent years 4 out of 5 of the new U.S. jobs in manufacturing have been created by international trade. One out of every three acres planted by American farmers is producing crops for export. Two trillion dollars of goods and services currently are being traded internationally and the potential for growth is unlimited.

We are the most creative, productive, and competitive people in the world and are the best prepared to take advantage of these opportunities.

However, like it or not, trade policy has become the scapegoat for economic ills, not just in the United States but worldwide.

In this nation, as in others, there are those who propose a "fortress" mentality—the adoption of policies that, in effect, pull up the drawbridge, insulating our market from world competition, and protecting our industries from innovative change. This is a self-defeating course of action. Nations which protect their economies from adjustment today will pay by a decline in productivity tomorrow. Inevitably this means less economic growth, fewer jobs, a lower standard of living and more government intervention to divide up an even smaller economic pie.

Despite the outcry for protectionism in this country, our economic and trade data reveal that the United States has generally performed as well as our major industrial trading partners.

Nearly every economy in the world currently is plagued by recession, but the United States has been hurt far less than most. And, there is a firm consensus among economists that we will be the first and strongest economy to emerge from the recession during the course of the next year. In fact recently we have seen the first early signs of recovery: housing starts are up, auto sales have increased, orders for durable goods have risen and inventories have fallen. And most importantly, the jobless rate in America has finally started to come down.

Unemployment is, of course, still far too high and we are working dilligently to reduce it further. But our unemployment is far less than that of most of our major trading partners. Moreover, unlike Western Europe and Japan, where employment has grown very little, the United States has created millions of new jobs for those entering the labor force during the last decade. In a period of about ten years the United States workforce has successfully absorbed the crest of the baby boom, a substantial flow of refugees and immigrants, and at the same time moved from having one of the lowest proportions of women in the work force to having the highest proportion in the world.

Part of the real and continuing strength of the U.S. economy has been veiled by shifts in exchange rates during the past decade. U.S. exports have grown rapidly during periods when the dollar was depreciating (1971–74 and 1977–1980) and exports actually declined while the dollar appreciated between 1974 and 1977. The upswing in the value of the dollar beginning in late 1980 again has adversely affected U.S. exports.

Another part of our problem has been that in an uncertain world the United States is a relative source of strength and a sanctuary for foreign funds. This has pushed up the value of the dollar even further. However, the continued progress we have made in bringing down U.S. interest rates and signs of a stronger world economy are beginning to be felt. The dollar has declined substantially against the currencies of all our key industrial trading partners except Great Britain in the past three months, auguring well for renewed U.S. export competitiveness.

The sensitive debt situation of many of the developing countries also has had a negative effect on U.S. trade. In cooperation with the IMF and in parallel with the private banking system, the United States and other industrial countries are working to help major debtor countries adjust to the realities of living within their own means.

To accomplish this adjustment such major LDCs as Mexico, Brazil, Argentina, as well as other developing debtor countries, have embarked on adjustment programs of great austerity. They will need to continue to increase their net export earnings in order to correct their growing balance of payment problems.

However, even during times of fluctuating exchange rates, an uneven dollar abroad, and the LDC debt problem, the United States has managed to maintain its share of the total world trade and total world exports. In fact, our share of the world's exports has actually grown from 11.9 percent in 1977 to 13.3 percent last summer.

Looking at manufactured items alone, we see that the volume of U.S. exports climbed almost as rapidly as that of Japan and faster than that of the E.C. countries during the 1970s. The U.S. share of OECD exports of manufactures was 2 percentage points higher in 1980 than in 1970.

From 1970 through 1981 the United States was in a strong current account position and, while we saw deficits in the merchandise account our overall trade performance was impressive. In that period the United States earned far more than it paid out in its current international transactions (goods, services, return on capital invested abroad, and private remittances).

For these twelve years, although we experienced a cumulative deficit in merchandise trade, our cumulative current account surplus exceeded $60 billion, more than that of any other industrial country.

Much is made of Japan's so-called competitive superiority to the United States in trade. However, in reality, Japan, performed only slightly better than the United States, and in that performance they are alone among our competitors in the industrialized countries.

More importantly, Japan's penetration of world markets is highly concentrated in a few commodity categories. Five categories—road motor vehicles, steel, consumer electronics, industrial machinery, and ships—make up more than half of its exports. This concentration contributes to, but also limits the scope of Japan's success.

Finally, while some were being critical of our own policies for not bringing on economic recovery quickly enough, the rest of the world held a different perspective.

For example, in 1980, the U.S. rate of inflation was 13.5 percent. Today, inflation in this country is at 4.6 percent. In that same period however, the rate of inflation in France has gone from 13.5 percent to 10.8 percent; in Italy from 21.2 percent to 16.3 percent; in Great Britain from 18.0 percent to 8.0; in Brazil from 183 percent to 197 percent.

Or take interest rates as another example.

In 1981, the U.S. prime interest rate was running at an average of 19 percent. Today it is 11 percent and still declining.

At the same time, interest rates around the world also have declined but for many countries they still exceed U.S. levels. France is at 15 percent; Italy 20 percent; Britain is at 11 percent.

Simply stated, in spite of our economic problems, the United States entered the GATT Ministerial Meeting in November 1982 in a stronger position economically than our fellow trading partners.

GATT MINISTERIAL

This was the atmosphere in which we approached the GATT Ministerial meeting. The worldwide recession, unprecedented unemployment rates and debt service problems led to a reluctance on the part of our trading partners to move toward free trade policies in Geneva. We realized that we would have to take the lead in identifying the problems of the current trading system and the challenges that must be faced in the years ahead. Had we not showed this type of ambitious leadership, there would have been no prospect for success.

Of course, while pursuing our objectives, we must take care not to attach unrealistically high expectations to the GATT and its ability to solve the world's economic problems.

The early days of the Agreement when 23 free trade oriented nations with much common ground among them could agree on trade rules are long gone. We now live in an increasingly complex world with more intricate and difficult relations among a much greater number of diverse nations. The 88 market, non-market, industrialized and developing economies that now adhere to the GATT increasingly pose challenges to the multilaterally accepted trade rules. Nonetheless, trade liberalization remains a common objective of all GATT members.

Indeed, this was our goal at the GATT Ministerial meeting. As it turned out, there was progress in Geneva, but not as much as the United States had originally hoped.

At the outset of the meeting the United States had two objectives:

First, to restore a sense of political will, momentum and commitment to the international trading system itself;

Second, to link the reaffirmation of political will to procedures that would back up the promises.

We moved closer toward fulfilling both objectives, which was a significant step. However, given the economic atmosphere in which the Ministerial took place, per-

haps our most important achievement was in keeping the GATT system together and moving in a positive direction.

A brief summation of the results of the Meeting are as follows:

POLITICAL COMMITMENT

The Contracting Parties made a commitment at the Ministerial to abide by their GATT obligations and to "refrain from taking or maintaining any measures inconsistent with GATT." The political commitment further stipulates that countries will make determined efforts to "resist protectionist pressures in the formulation and implementation of national policy and in proposing legislation."

The most ambitious part of this political statement is the reference to refrain from taking and "maintaining" any measures inconsistent with GATT. This refers to measures the Contracting Parties already have in place and draws special attention to the fact that during the past few years many of the Contracting Parties have enacted protectionist measures which violate the GATT.

This progressive language must be backed up with substantive action during the coming months.

SAFEGUARDS

A key issue that was addressed by the ministers in Geneva was the development of a safeguard code. Most safeguard actions currently taken to protect domestic industry from imports, are pursued outside the framework of any GATT discipline.

Although the United States had hoped that countries could agree on a code at the Ministerial, that was not possible. Certain countries were unwilling to accept new international rules that would limit their freedom of action when taking restrictive measures.

However, the Ministers recognized the need for a comprehensive safeguard code as an essential underpinning to the political commitment to halt protectionism. Therefore, they decided that negotiations should be undertaken to complete a final agreement by the fall of 1983. At the GATT Council meeting in Geneva on January 26, this task was assigned to the GATT Safeguards Committee.

The United States had hoped for more, but we believe this is a positive step that sets the stage for intensive negotiations during the next nine months on this fundamental issue.

DISPUTE SETTLEMENT

A good deal of progress was made in tightening the GATT dispute settlement procedures.

Concern about the present dispute settlement process was twofold. First, when political will is lacking, the system is subject to lengthy stalling. Second, even when a final report is made, that decision can be blocked by either of the affected parties by simply refusing to accept it.

The Ministers in Geneva shortened the time constraints on the dispute settlement process and resolved that no single GATT Contracting Party should block GATT Council decisions related to disputes. This wording is stronger than any previous GATT language. The real test, however, will come during the next few months in the application of this commitment. If successful, we will establish the precedent that no single country can veto the dispute settlement process.

AGRICULTURE

Agricultural trade problems were a major topic of discussion by the Ministers, particularly between the United States and the European Community. The longest, most contentious, debate at the Ministerial centered on the language stated that GATT Contracting Parties should bring export competition in agriculture under greater discipline.

The Contracting Parties finally agreed on language saying that there would be an examination of the provisions in GATT relevant to agriculture, as well as the operation of the General Agreement "as regards subsidies affecting agriculture, especially export subsidies, with a view to examining its effectiveness * * * in promoting the objective of the General Agreement and avoiding subsidization seriously prejudicial to the trade or interests of Contracting Parties." This represents a real step forward. In the work program set out in the Ministerial Declaration, the Contracting Parties agree to bring agriculture more fully into the multilateral trading system by improving the effectiveness of the GATT rules and to seek to improve terms of access to markets and to bring unfair export competition under greater discipline.

Furthermore, an agreement was reached to set up a group to examine ways to deal with agricultural trade problems and to set a two-year time limit for completion of the work. Progress by this group would help us avoid serious confrontations in the future. At the January 26th GATT Council meeting, a Trade in Agriculture Committee was established with the first meeting scheduled for March 2-4, 1983. The U.S. will participate actively in this new Committee, which we believe will provide framework for discussion of agricultural trade problems. We are optimistic that the work of the Committee will lead to a renewed commitment to market-oriented agriculture policies among our trading partners.

As the members of this Subcommittee are aware, most of our problems in trade in agricultural products are with the European Community. In order to resolve our bilateral tensions, and to complement the multilateral effort of the Committee on Trade in Agriculture, we have begun a series of high level meetings between the United States and the EC. The two meetings held since the Ministerial have improved the atmosphere somewhat and have set the stage for intensive talks over the next few months.

FUTURE ISSUES

The GATT must constantly evolve in order to stay relevant. As such, it directs attention to emerging issues and problems.

If these issues are not addressed, they will prove far more difficult to manage in the future. Despite others' skepticism, the United States made the ambitious proposal that the GATT initiate studies to examine trade in services, North-South trade problems, trade in high technology products, and trade-related investment issues.

SERVICES

One of the most glaring gaps in our international trade rules is in the service sectors. As a first step, we were successful in obtaining Ministerial agreement on national studies of trade in services issues, an exchange of information in the GATT among interested countries, and a decision in 1984 by the Contracting Parties as to whether further multilateral action is appropriate.

We expect to present our comprehensive national study this Fall. In the meantime, we will initiate a series of informal talks with interested GATT members on substantive services issues.

We now have the prospect of drawing attention to the services issues in the GATT, where the basic principles of trade liberalization and dispute settlement procedures to back them up make it potentially the best international forum for understanding in this area. It is a beginning.

NORTH-SOUTH TRADE RELATIONS

During the past decade, the developing countries have grown in importance to us as markets, as competitors, and as suppliers of needed goods and services. Their impressive growth and diversification of trade occurred in spite of significant trade barriers in nearly all developing countries. The GATT must be prepared to respond to the changes in global trading patterns if it is to continue to receive the support and adherence of trading nations.

For this reason, the United States proposed that the GATT launch a process which would encourage a mutual opening of developed and developing country markets to foster economic growth.

While we did not obtain a commitment by the Ministers to agree to a North-South round of trade negotiations, the GATT did instruct the Committee on Trade and Development to carry out an examination of the prospects for increasing trade between developed and developing countries. However, it is clear that the U.S. must set its own course on this issue and pursue discussions with interested nations. We stand to gain much by working to avoid barriers to trade with the LDCs. This is true primarily because the developing countries offer the greatest potential for growth in U.S. exports, especially manufactured goods.

As I already pointed out, many LDCs are striving to improve export earnings in an effort to deal with their balance of payments problems. If high-debt LDCs are prevented from bringing order to their balance of payments, there is likely to be serious, negative effects on the world trade and financial systems. It is necessary, therefore, that industrialized countries maintain, and even improve, the openness of our economies. This will encourage stability and economic growth in the LDCs, and ultimately lead to improved demand for U.S. exports.

In addition, liberalization of trade with our developing trading partners assures us of a dependable supply of many materials that are critical to our own economy. For example, our domestic aluminum industry is heavily dependent on imported bauxite, and we get a great deal of our bauxite from Jamaica. This is just one example of how we are dependent on an LDC for a material critical to our own economy. There are many others, and several cases where we are dependent on them for materials strategic to our national security.

HIGH TECHNOLOGY

There was agreement from all parties to study trade in high technology products. However, on the final night of the negotiations, one country exercised its blocking right and the language on high technology was struck from the formal Ministerial document. It was then added to the Chairman's oral statement. At the January 26 GATT Council meeting the U.S. tabled a document calling for the establishment of a Working Party. Consultations between the GATT Chairman and interested countries are continuing on this point. GATT work on the trade issues of high technology continue to be of the highest priority for the U.S. delegation.

INVESTMENT

The United States faced strong opposition by the LDCs to even a discussion of trade-related investment issues. In large measure, this was because many of these countries already have local content and export requirements. While their opposition is understandable, it is also regrettable. These types of actions have a negative and distorting effect on global trade.

The United States will move to protect its legitimate interests in this area. We will pursue our legitimate complaints in an effort to achieve for U.S. investors the same kind of access, opportunities, and treatment abroad that is offered to foreign investors in the United States.

The United States also will continue to pursue this issue in the GATT and in other multilateral fora. For example, the United States has pursued its complaint against Canada's Foreign Investment Review Agency through GATT's dispute settlement mechanism. The OECD is also considering possible multilateral solutions to trade-related investment problems.

SUMMARY

As we push ahead, urging our trading partners to do more to strengthen the GATT and to encourage freer trade policies, we expect to meet reluctance and some opposition. There may be those, who in the face of difficult decisions advocate retrenchment and retreat.

Nonetheless, the United States has been successful in the trade field because of its bipartisan adherence to free trade principles. Our leadership and our record are what held the GATT Ministerial together, and keep the GATT Council moving forward.

Similarly, and perhaps ironically, we face the same opponents here at home who advocate less free trade, not more. These cassandras wish to put off the tough decisions of adjustment which face all major trading nations and desire instead to return to a world of protective barriers.

As we did in Geneva, we will continue to vigorously oppose protectionism at home that would damage our productive future and distort world and American adjustment prospects.

At the same time, let me reiterate the fact that we will not sit on our hands if other governments act in such a way as to injure U.S. workers and industries. Just as we do not intend to shift our unemployment to other countries, we do not intend to allow other countries to shift their unemployment to us. We will act to defend and advance the legitimate economic interests of the United States in the international trading system.

In this perspective, let me pause to mention legislation that will be of great assistance in our efforts to strengthen the international codes of conduct. A bill to increase reciprocal market access with our trading partners in the areas of services, investments and high technology goods has been introduced in the Senate, and I understand a similar measure soon will be introduced in the House by members of this subcommittee.

The Administration supported similar legislation last year in an effort to overcome some of the more restrictive practices affecting world trade within the multi-

laterally accepted international framework of GATT. We look forward to working with the House and Senate on reciprocity bills again this year.

In short, we intend to proceed along the three paths, which we outlined in our Trade Policy Paper from July 1981:

1. We will continue to seek negotiations with other countries to remove trade barriers and unfair trade practices abroad which burden U.S. exports.

2. We will continue to insist on effective enforcement and, where necessary, strengthening of U.S. trade laws to help ensure that U.S. industries compete on a fair and equal basis in international markets.

3. We will continue to pursue economic policies at home that will allow the U.S. economy to adjust to wealth-creating innovation.

Nonetheless, our success will be measured not in laws or lofty policy statements—but in jobs, growth and real income. These are not a set of promises; these are a set of challenges.

At the same time, the United States will continue its vigorous efforts to strengthen the international trading system. Our leadership is essential. We must stop the drift toward short-term, inward looking policies which risks a repeat of the disasters of the 1930's, when protectionism and trade wars eventually led to real wars and unprecedented suffering.

Protectionism can not serve to settle disputes. It can no longer be the concern of the great powers alone. For retaliation, could well engulf the entire multilateral system.

We must put an end to the spread of worldwide protectionism, or protectionism will put an end to our economies. We either trade more and create more employment, or we trade less and create more unemployment. Our choice is clear.

Only through the expansion of trade can we hope to create more long-term job opportunities in growing, flexible industries and sectors. Our current employment problems demand that we compete successfully in the rest of the world. Achievement of this goal will not be a victory for one party or one side, it will be a victory for our nation.

I look forward to continuing our work toward this goal with the new Congress and in developing meaningful proposals to address the multitude of issues we will face this year.

Chairman GIBBONS. In your own quiet way, you made a very strong statement, one that I agree with in principle.

On page 5 of your statement, the bottom of the page, you say for these 12 years, although we have experienced a cumulative deficit in merchandise trade, our current account surplus exceeds $60 billion, more than that of any other industrialized country.

Perhaps that goes a long way to explain the very strong American dollar—that, and I guess the fact that we chose to fight inflation with monetary policy rather than a combination of monetary and fiscal policy. This cumulative surplus and the pressure on monetary policy are now coming home to haunt us in that our dollar is vastly overvalued in some people's estimation.

The president or the chairman of the board of General Motors and Ford both sat where you are sitting and said they really could not compete with the dollar as strong as it is.

That presents a dilemma for us. We like to have these surpluses in current account, but someday we have to buy them back, and it seems to hit the sick industries—and I would classify steel and autos as being sick industries—the hardest.

The protectionist fires in this country roar, and all of us feel the heat of those fires.

We must do something positive. We must try to ameliorate them.

Other industrialized countries have slipped into all kinds of subsidies, export performance requirements, everything else in order to keep up with us in that $60 billion surplus that we have been running.

It puts a tremendous amount of pressure on GATT, and none of us are satisfied with the way the GATT has been responding to it. So my first question to you is, what ideas do you have for improving the GATT management and its procedures, and its abilities as an institution to solve our international trade problems more easily and more quickly?

Have you got any ideas as to how we can improve GATT?

Mr. BROCK. Yes, sir; not all of the problems are GATT-related. You just talked about the strength of the dollar, and I am not sure that anything the GATT can do can deal with that problem. That has more to do with Federal Reserve policy in this country, with the fact that we are the strongest and most productive nation in the world, and, therefore, we are a safe harbor for investment around the world. Not only were we receiving debt or funds from other countries last year; other people sent money out of their own country; we had a substantial net flow of funds into this country from even Japan, where they thought they could get a better return on their own money, even better than in their own country.

It strengthens the dollar, weakens their own currency, and has the perverse effect of making it more difficult for us to compete internationally because of the unusually strong dollar.

The most important single step that could be taken to deal with our trade problem would be to get rid of the deficit that is affecting this country and keeping our interest rates wholly level.

If you look at the GATT, itself, a couple of thoughts are clear.

First of all, I do think there is a need for a continuing effort to strengthen the ties between the trade and financial organizations of the world trading community. In this regard I would cite to you the example of IMF loans which are conditioned upon improving a country's net trade posture.

The implication of those loans is that countries should restrain their imports and subsidies or by some other device expand their exports. That has an effect on trade and makes life very difficult in the trading mechanism; so the greater the degree of cooperation, consultation, a much closer tie between trade and finance, and I think that is an obvious necessity these days and will be for the foreseeable future.

Second, when you made the distinction, Mr. Chairman, between merchandise trade, where we had a deficit, and current account, where we had a surplus in the 1970's, you highlight one of the priority U.S. goals in Geneva, and that was the inclusion in the GATT of services, because services are counted in the current account but not in the merchandise account, yet the United States is a service economy.

Two-thirds of our people work in services trades, and our growth has been absolutely spectacular. We have the finest, most competitive price and quality competitive services industry in the world.

There are no rules in the GATT to deal with this problem, and we made a very strong pitch for the GATT to begin to take that problem up.

We achieved at least part of our goal in getting it on the agenda and getting an agreement that nations would undertake a study of the problem and return for discussions some 2 years hence.

It is very important that we encourage our trading partners to maintain that commitment.

Last, Mr. Chairman, in terms of the management of the GATT and the system, it is not just in the services area that we have got to focus that organization on the 1980's, rather than the 1970's and the 1960's.

High technology, north-south problems, trade-related investment all are issues not presently dealt with adequately in the GATT. They have to be dealt with in a more focused fashion.

I think one of the things that I would hope over the next couple of years, after the last 2 or 3 years of recession worldwide, would come the understanding on the part of our trading partners, as I think it is understood here, that we simply have to strengthen this system, that we have to be more willing to abide by the rules and to strengthen those rules.

We made a political commitment, but we did not finalize the procedures to insure adherence to that political commitment.

That simply says that we have to complete work on a safeguards code, because that is one of the more outrageous ways in which countries violate the GATT, and we have to be sure that the dispute settlement mechanism that we put in place is, in fact, a workable mechanism and is not subject to single-country veto, which can destroy the whole process of a consensus-based organization.

Chairman GIBBONS. I have run into these attitudes in countries that are having a hard time and having to borrow money from the IMF about their export activities and about their restraints on imports.

I frankly have to admit, I haven't done much exploring in that area; I'm of the inclination that I should, but I haven't—does IMF actually require a restraint of trade and increase in exports as a condition of their loan?

Mr. BROCK. I don't think it is in black and white, but countries take it as a very strong implication.

They do insist on an improvement in their balance of payments, and they do require that countries take steps to improve the balance of payments because their debts are external.

The IMF loan is basically a balance-of-payments loan designed to accommodate temporary shifts in balance of payments.

The problem is some of these countries are in fundamental disequilibrium, and at least the tone of the IMF request is read by some as an excuse to impose export performance requirements, to subsidize exports, and/or to severely restrain imports.

If you look at the actions of a number of countries, they have taken almost all of those steps, either during the time of receiving an IMF loan or immediately thereafter, and that obviously puts a burden on us here, because our laws require us to deal, for example, with countervailing duties against a subsidy that injures U.S. exports.

One of the problems we have is that the laws are not totally adequate in the United States to deal with certain elements of trade distortions such as trade-related investment practices. That is one of the reasons the President, last year, endorsed reciprocity legislation such as that which has been introduced in the Senate, and I

gather will be introduced shortly here in the House, to strengthen our negotiating hand.

There are distortions that occur as a consequence of how countries react to the terms of these loans, whether or not the loans specifically mandate a course of action, and, in my judgment, they do not.

Chairman GIBBONS. Do you have any ideas of how we can increase speed in reaching certain remedies involving merchandise trade where there has obviously been an illegal distortion under GATT?

Mr. BROCK. We made two suggestions in Geneva: First, in the dispute settlement area, we urged much more rapid action and believe we have adopted some procedures that can help achieve that.

Second, we urged that once a decision was made, that it would not be subject to a single-country veto, to a blocking action.

Chairman GIBBONS. I was going to ask about that.

The GATT seems to operate under unanimous-consent agreement.

Is it time that we abandon the unanimous-consent approach in GATT?

Mr. BROCK. No, I would draw the distinction, Mr. Chairman, between the development of rules to which states are going to adhere. That has to be done by consensus.

Chairman GIBBONS. Unanimous consent?

Mr. BROCK. Yes, but once the rules are adopted, it seems to me, then, that having achieved a consensus, the remedy that is derived under those rules should not be subject to blockage by one country. In other words, you could have, and we have had on occasion in the past, single countries, including the United States, who exercise blocking rights because they just did not like the decision of everybody else, and if you let that go on for long, you break up the process; you break the system apart.

So, what we tried to do was to write some form of words down that would eliminate the single-country veto of a final decision, not on the writing of new rules but on the interpretation of how those rules should be applied and the remedy achieved.

Chairman GIBBONS. I think that is a good distinction.

Do you find that there is any support in GATT for that kind of change in the rules?

Mr. BROCK. I think there is overwhelming support. There is no question in my mind that this was one of the principal areas of concern for the smaller countries.

The developing countries worked very closely with us in Geneva on this particular problem, and we made, I think, a good deal of progress.

We will have to see, and we will have to test the new procedure to see if it does work, but there is no question in my mind that the overwhelming majority of countries in the GATT support this basic premise.

Chairman GIBBONS. The bottom line would be whether we support it or not.

Mr. BROCK. We have to, Mr. Chairman.

If we cannot have a system in which there are rules, and if we don't have the integrity to live by those rules, then it is hard for us to argue that everybody else should live up to them.

Chairman GIBBONS. I agree with you.

The leaders have to set the example or no one else will follow.

Mr. BROCK. That is one of the reasons we will be bringing you a DISC proposal very shortly.

Chairman GIBBONS. Yes, I had hoped that we could get that solved, because that certainly is one of the stumbling blocks.

On services, is there any followup now going on in GATT to look at the services rules or proposals to put services more under GATT?

Mr. BROCK. Yes, it will be a fairly quiet time for the next few months, because the mandate of Geneva was that countries should undertake national studies of the services area, and the problems attendant to it.

We would hope to begin to gather those studies together and see what steps could be taken as a consequence.

Perhaps in a very preliminary fashion, it could be done as early as this fall, when the United States expects to complete its own work in this area. We probably will be the first, because we have been working on it longer than anybody else.

Chairman GIBBONS. Any targets or deadlines or anything like that to meet?

Mr. BROCK. Yes, we have a target of the end of 1984 for the completion of these national studies.

Chairman GIBBONS. And then after that, do we have a target?

Mr. BROCK. Not really. We have, I think—we would like to establish one.

We tried to in Geneva, but I think other countries view this matter as very complicated and new, and consequently were unwilling to go beyond putting a termination date of 1984 for the national studies. After that, my own judgment is that we, if we do our work carefully and well internationally, and not just in terms of the studies, but in terms of our relationships with other countries, we should be in a position to move fairly quickly into some serious discussion on some rules or regime for the services area immediately following 1984.

Chairman GIBBONS. In your opinion, why do other countries oppose establishing some kind of international rules, guidelines or standards for services trade?

Mr. BROCK. Well, I am not sure they do.

The question is, Where do you do the studies, and where would you place the rules?

There is a very strong feeling among the so-called G–77 that this work ought to be done in UNCTAD. I am confident it will be discussed in Belgrade this summer.

While studies are not bad, there is no effective remedy, no rules, no enforceable rules in other areas, because you don't have the contract relationship you do in the GATT, where concessions are made in order to achieve concessions, where there is a balance to the trading relationship, and the establishment of rules is necessary for that balance.

I respect the view of others who would like it a one-country, one-vote political system, but I don't think it works.

The United States, at least for myself, I have not opposed doing studies in any of the forums. We have actively supported studies in the OACD, for example, but in the final analysis, you have to have some enforcement mechanism, some compensation, some penalty, and only in the GATT, which is a contract relationship of 88 countries, do you have that possibility at the present time.

Chairman GIBBONS. On agriculture, and I am glad we have our new member from an agricultural area with us this morning, how much of agriculture now comes within our GATT rules, and why are people in other countries reluctant to move ahead in agricultural areas?

Mr. BROCK. Everything in agriculture is covered, except there are no rules.

Agriculture has been the stepchild, the one area that has been set aside because of the sensitivity of the product, because of the desire of countries for sovereign right, the desire of countries for self-sufficiency.

All of those things have argued for setting agriculture aside as a separate entity uncovered by the normal rules. For example, in the subsidies areas, subsidies are prohibited in the exchange of merchandise.

And that is with the exception of agriculture, and that is an area we care a lot about.

You ask why. Part of the reason is that the United States, itself, opposed the adoption of rules. During the 1960's, it was the United States that refused to establish rules, because we had very heavy subsidies in agriculture, and we didn't want them subject to rules. We have our own exceptions from all of the rules, such as they are, section 22 waiver, which other countries resent a great deal, so we don't come to this matter with absolutely clean hands.

The fact is that agriculture is too big an area not to be covered by the GATT, and we have changed our policy from the 1960's and are aggressively now trying to achieve good tight rules on this product area just as it covers other areas of merchandise trade.

Chairman GIBBONS. I am glad you mentioned the fact that most of our agricultural restrictions are carried on under a waiver that was granted us at our request years ago, and that we seem to sometimes forget about, and I guess the question that rises, if we are going to expect GATT rules under the proper circumstances, would we be willing to bargain away that waiver?

Mr. BROCK. It is my judgment, Mr. Chairman, that if the United States could, in the process of negotiating in terms of its own waiver, if we could, in exchange, achieve essentially a free world market in agriculture without major barriers and certainly without export subsidies, that we would net far, far better off than we are with the present program, and I have expressed that sentiment.

I have said to other countries that criticize the United States for wanting the rules to apply to everybody except ourselves, I have said very simply that as far as we are concerned, if they will negotiate in this area, everything is negotiable. Our farmers can compete with anybody in the world if they are given a chance to do so.

Chairman GIBBONS. What are the attitudes of the other countries on agriculture? Do they seem to be willing to go our route?

Do you detect any kind of willingness like you did in services, or is this a different proposition entirely?

Mr. BROCK. No, it is not entirely different.

The shift of opposition from one type of country to another is clear here, though.

The greatest concern is expressed in Europe, which has a very heavily supported agricultural sector.

The concern that they have is reasonable, I think.

They feel that the common agricultural policy is the cornerstone of European unity.

It is one area that the European Commission has full authority to govern for all the 10 member states, and because of their climate primarily and the size of their farms, they feel the need for continued governmental support of that sector; so the discussion of free trade and agriculture is somewhat difficult for them, but, even there, I think we have made some progress.

We had, after Geneva, excellent conversations with the European Commission in Brussels and five U.S. Cabinet members there, which indicated the seriousness with which we view the issue, and we have had two subsequent working group meetings which have at least moved the process along a bit.

We have a long way to go, but I think there is a serious, very responsible conversation going on right now, and I hope that it will continue. We are not going to solve the problem.

One of the arguments I would make for the GATT is that, while we can perhaps remove some of the symptoms of difficulty between us and Europe in this particular area by bilateral work, the long-term answer has to be international rules. That is something that governments can adhere to as a matter of international responsibility and for which they get something, a quid pro quo that will allow a solution to the problem that is not available to us right now.

Chairman GIBBONS. One of the arguments I hear for protection in this country is that certain of our industries are being destroyed, and that these industries are necessary for our national defense.

As I recall, and I am asking you if you recall, there is already a provision in the trade laws that allows protection if that kind of event begins to occur.

Mr. BROCK. That is correct—section 232, if I recall correctly.

Chairman GIBBONS. Yes, that is correct, and do you remember the last time we had a case brought by anybody in this area? I can't remember any.

Mr. BROCK. There have been a couple of requests in the last year. I don't offhand recall the most recent decision in the area. But the point that you are making is right; that there is a provision of U.S. law which allows for a remedy if, in fact, the industry is determined to be of essential nature in terms of our strategic or defense concerns.

Chairman GIBBONS. But there have been no actions brought like that in behalf of steel recently, have there, or automobiles?

Mr. BROCK. No, sir.

Chairman GIBBONS. Thank you.

Mr. BROCK. One of the things that is a little frustrating about that kind of conversation, Mr. Chairman, is that the argument is made on protectionism; the same argument could be made on technology.

Industries are born, and must change with the times, or die.

The harness industry, whale oil lamp industry, are pretty good examples, and any country that tries to stop that process of regeneration is going to die, itself, because it will become stagnant. It is just as valid to make a case against technology as it is against imports.

I am not sure there is any difference.

There is the specific area of defense, where you have strategic consequences that affect our very survival, but that is covered under present law. The concern that I have is protectionism is expanded to any area, to all of these areas which deserve to be protected, because there are jobs involved, but nobody wants to talk about the new jobs that are being created. How many of those would be aborted if, in fact, we, by Government intervention, stopped the regenerative process of American enterprise.

Chairman GIBBONS. You know, it struck me the other day, and I don't know what brought it to my mind, it seems to me that the industries in this country that are having trouble in many cases are those in which there has been no internal growth.

When I was a young fellow, there were an awful lot of people manufacturing cars, and we are now down to 2½—maybe 2¾—in the United States.

At one time, there were a whole lot more steel companies in the United States than there are today. It seems to me that as domestic competition drops off, it becomes harder and harder to enter those industries; that for some reason those industries get sick. Their prices go up.

I am not that much of an economist to understand what is going on, but am I off on the wrong track?

Mr. BROCK. No, I think if you will look at the record, with a couple of exceptions, most of the industries that are the most vital are those in which there is the most competition.

Chairman GIBBONS. It is certainly true in Silicon Valley, and places like that, where the competition is high. There is a high fallout rate, but they seem to do pretty well.

Mr. Jenkins?

Mr. JENKINS. Thank you, Mr. Chairman.

Mr. Ambassador, first let me ask you about a few areas.

What is the status of the 301 poultry petition that has been filed?

Mr. BROCK. Which 301?

Mr. JENKINS. Recently there was a 301 petition filed concerning the subsidizing of European poultry.

Mr. BROCK. We have had consultations on the subject with the European Community.

Unfortunately, the surge of competition has come more recently in 1982, at least, from Brazil, and, as a consequence, we have sought to include Brazil in the case. That has caused some delay.

We have been unable to get Brazil and the European Community and the United States together, to sit down and talk about what is the next step, what the next step should be.

We are, frankly, concerned equally about both, but the advent of Brazil has made it much more complicated, because we do believe that there is a severe and substantial subsidy involved in their sales as well.

Mr. JENKINS. Is there any change in the bilateral textile discussions with China?

Mr. BROCK. To China? No change at the moment.

The United States expressed a willingness at our last meeting to continue the conversation.

If there is any sign of possibility of negotiation, we would like to pursue it, but, at the moment, the talks are in abeyance.

Mr. JENKINS. Let me follow up on one question that the chairman asked concerning the enormous debt of the developing countries.

I have somewhat of a difficult time in totally analyzing our posture in this.

As I understand it, basically we are contributing substantially to IMF, and I think that there are requests for increased contributions to IMF by the American taxpayer.

Now, is it fair to say that this debt or debts created when our international banks seeking a larger return commenced with their surplus dollars to invest particularly in the LDC's, particularly for the higher rate of return, or more for altruistic reasons?

Mr. BROCK. I am sure there are altruistic individuals within the banking community.

Chairman GIBBONS. In Tennessee?

Mr. BROCK. Forgive me if I don't comment on that, Mr. Chairman, but I don't think that governs bank policy in most cases; that they, obviously, were seeking a place for the capital that was flowing into their banks from the OPEC nations.

Mr. JENKINS. All right, sir.

Now, as I understand the situation now, we are going to have to possibly increase our contributions to IMF and other similar quasi-governmental agencies which, in turn, will require those countries indirectly or by implication to restrict their imports and to increase their exports.

The American taxpayer, in effect, is going to be asked to loan additional money for the developing countries to sell us more, so that some of the banks may get their payments—interest payments.

Isn't that correct?

Mr. BROCK. No, I really don't accept that.

You can make any error you want to on the IMF, but the fundamental case has to come down to the alternative of an international mechanism of that sort.

If we failed to support the IMF and use its resources to provide some sort of bridging opportunity during this time of recession for these countries that have gotten into trouble, most of them, not because of their own actions, the effect will be traumatic on U.S. trade, and very, very negative.

There is simply no possibility that these countries can pay their debts which are external without exports.

They cannot possibly improve their economic base and maintain any competitive situation without importing, and that is largely

American goods and American technology; so I do not view IMF as some philanthropic exercise.

Mr. JENKINS. IMF is requiring them to restrict their imports, are they not?

Mr. BROCK. I think the question is not IMF restriction; it is the fact that these countries simply have to improve their net trade position in order to be able to pay external debt.

You have a case in Mexico, for example, where their debt service is well over 100 percent of their total export.

There just is no way that a country can continue that for long.

They have gotten into the situation of a New York City. They are borrowing for current expenditures but on a long-term basis.

You have a situation where they are impacted by three or four different events, not all unrelated.

First, the energy crisis, and the two successive, in their case, three successive oil price shocks. Second, the collapse of world commodity prices as a consequence of the world recession. You put those factors together, and you have a situation where they simply are in a circumstance where they cannot survive and pay those debts.

It is not that they borrowed unrealistically, but in most cases they probably borrowed a little imprudently, but not always, but nobody could anticipate the collapse of commodity prices.

We have mines shut down in this country because of that.

Everybody has been damaged.

The alternative is not to finance the IMF, and if you don't finance the IMF, there is no possibility that they can continue to trade as they are trading. The restrain will be much more severe on American exports. That concerns me most.

Mr. JENKINS. What would the repercussions be if the banks were suddenly in a position of having to defer even interest payments or take a loss on part of their loans? What are the repercussions other than to stockholders?

Mr. BROCK. The repercussions would be fairly severe. It depends upon the magnitude of the deferral and the reduction or elimination of the debt service.

If it is widespread, you could trigger a disastrous situation.

Mr. JENKINS. That is what I want to understand. I know I am getting a little bit far afield, but having served in one of these little country banks on the board for many years, we took a lot of losses. Am I incorrect in assuming that the international loans made by these banks, that these banks are not taking any substantial loss now, or are they agreeing to defer?

Mr. BROCK. Almost all of the banks are agreeing to defer or stretch out.

The renegotiation of that in the instances where it has been achieved has involved not just the big New York banks, but some 500 U.S. banks ranging down to some reasonably moderate-sized institutions. They have simply had no chance other than to extend the loans, and in some cases to defer some interest.

Mr. JENKINS. Maybe I am looking at it from a very provincial standpoint. It appears to me that they made the decision to make the loans based upon the expectation of a potentially larger return, rather than making loans to the U.S. domestic industry. This ap-

pears to me to be a risk that they must undertake, and it is sometimes difficult to take the position then that we will spare them of all of the loss.

I am not saying to prevent a banking collapse that we should do nothing, but I don't know that we should spare them of all their losses.

Mr. BROCK. I don't think anybody has suggested sparing them all or even a substantial portion of the losses. There will be some losses, and probably should be.

There have been some imprudent loans, and, as in the case of others, petitions domestically, when they make a mistake, they pay, but if you look at the increase in IMF funding that is proposed, it is sufficient to cover somewhere substantially less than 10 percent of the outstanding debt of these countries.

Mr. JENKINS. The debt or the interest?

Mr. BROCK. The debt, and that is certainly no bailout of any U.S. institutions by any stretch of the imagination.

Let me add one other thing, too. It is a little bit late for us to be talking about these loans. Some of us were talking about them in the mid-1970's and expressing concern, and I have been on that record myself in public on several occasions, but the fact is that those loans were made to countries which turned around, and in many cases, frankly, a fairly decent percentage of the cases turned around and bought U.S. products; so we benefited.

We created exports by having banks that were willing to make those loans. Had those loans not been available, our exports in the 1970's would have been substantially lower than they were, and our economic growth and world trade would have been substantially hampered, because these countries were hit—take Brazil, for example, which is a good country, well managed, good aggressive business community, very strong national structure, and yet no domestic energy resources at all, or virtually none, certainly no petroleum-based resources.

What were they going to do if they didn't get those loans when the price of their imports rose $5 to $10 billion a year?

They had to have some capacity, if they were going to buy Caterpillar tractors, which they were doing at the time; they had to have some resources with which to finance those purchases. So we did not come out of it as simply exposed creditors. We got a lot out of those loans.

Mr. JENKINS. Well, I am sure that is correct. Using this same analogy, you could loan in this country to any potential borrower that is a bad risk, and get some return from the proceeds of that loan. Even the worst of risks will buy some things that will be beneficial to trade generally.

Mr. BROCK. That is very true.

Mr. JENKINS. I have no quarrel with Brazil. With Brazil having a 150–200 percent inflation rate and, with problems that they have had, it appears to me that there is some caveat emptor requirement on the part of institutions.

Mr. BROCK. I really can't disagree with you.

All I am saying is that at the time the loan was being made, an awful lot of very prudent competent people were making those loans, and I am not sure that in hindsight it is entirely fair to

blame the entire exercise on the part of United States or other international bankers.

Mr. JENKINS. I have not made up my mind on IMF individually.

You were talking about the dangers in making these loans several years ago. They did not heed that advice, apparently.

Mr. BROCK. No, but I want to urge you with all the power in my command to carefully consider the increase in funding that we have suggested.

The United States has negotiated that down to a respectable level. Other countries were asking for more than a 100-percent increase. We resisted that, and we have insisted that the bank be managed very carefully.

I think we have proven the validity of that case. There has not been a bad loan on the bank's part, and the jeopardy to our trade, to our economic well being that would come in not funding the international mechanisms, it is not a risk that any of us should be prepared to take.

Mr. JENKINS. Thank you, Mr. Ambassador.

Chairman GIBBONS. Mr. Frenzel?

Mr. FRENZEL. Thank you for your testimony. You talked about the bilaterals and what you thought was a better atmosphere.

I know that for some of us who were with you in Geneva, we really came out of there with more than disappointment about the attitude of the European Community.

In my case, it was a feeling of some bitterness.

Comment in a little more detail what went on at the bilateral that made you feel a little better about those things.

Mr. BROCK. First, let me state that I shared the frustration that you did with the attitude of a number of countries, and I would not single out the European Community.

There were an awful lot of countries that were so beleaguered by their domestic problems, that they simply could not focus on what a tremendous thing more trade would be, but rather focused on the more negative aspects of the problem.

Europe does have an agricultural base that has become dependent upon government support.

There just is no question about it.

They were the world's largest importer 10 years ago. Today, in dollar terms, if not in quantity, they are going to be the largest exporter in the world. You don't do that simply by the magic of the marketplace very often.

Government intervention has been massive and sustained, and there is now a political commitment to the maintenance of that system that is very deeply rooted.

It was in full knowledge of that problem that we had our conversations.

What we did, frankly, was to start off by saying, and I said it almost in these words, we are not here to argue who is legally right or wrong, or who is even ethically right or wrong, but rather how do we solve a problem, because there is a trade conflict brewing of real magnitude between us and our most important trading partners, and that is simply not something we view with any comfort.

We talked at length about the genesis of the problem.

We talked about the difficulty in getting away from practices such as subsidies, and the end of the conversation was, I think, summarized by the simple statement that we both have agricultural systems that are not pure. We both have agricultural systems that were, in part, subsidized.

We have not until recently used government support for export, for domestic maintenance but not for export. They have used it for export.

We simply have to find a way to reduce the tension points in the short term to avoid a really significant trade conflict that would advantage neither side, and in which both sides would lose. It was that kind of summary statement that was generally agreed to on both sides, that we just couldn't avoid not to talk.

We had to sit down quietly and see those areas where progress might be made and where each of us could offer something at the bargaining table, and that is what we have been trying to do for the last two months now.

Mr. FRENZEL. Well, your tolerance level is a lot higher than mine. I am sure glad you were doing it and not me.

You experience all the frustrations first-hand, and you were still able to resist the impulse to punch somebody in the nose. I am not sure I would have been able to do so.

On export subsidy, we have made the first challenge to the EC which I look on as us telling them over the years, if you don't change, you will simply force all the rest of the world to do what you are doing, and now we have done it in a fairly dramatic gesture.

Do you—and I note that there are a lot of Senators who are screaming for more blood. Can you tell us what you have in mind for the future?

Do you see the Exim targeted thing being the next weaponry that we bring to the front?

Mr. BROCK. If necessary, we have to defend our vital interests, Congressman, and if people are not going to trade by our rules, then we may have to trade by theirs, but that is a very, very dangerous step to take.

The purpose of the steps we have taken to date, both with Eximbank, and with the wheat-flour sale, were very carefully considered in the sense of trying to get people to move to a more rational way of doing business with each other.

It is not the intention of this administration to start a trade war. We will take every conceivable step that we can to avoid it, and all we have done so far is to say: "Let's try to work the situation out."

I grant you that my patience has worn thin, as has the patience of everybody else in this administration, but we have too much at stake not to try to solve the problem and to simply open up with a salvo from all batteries at the same time. That would, in my judgment, be just as dangerous as taking a major protectionist step in terms of our own domestic market.

I think you do not go to battle when you are sure that everybody is going to lose, and everybody does lose in a war.

Mr. FRENZEL. I agree with you.

Do you believe that our first salvo has attracted any attention in Brussels or in Paris?

Mr. BROCK. Yes.

Mr. FRENZEL. You raise the point that some of the contracting parties to the GATT will be far happier to have some aspects of trade, particularly services, discussed in another forum or set of fora, and you suggested that UNCTAD would be one of them. Your agency will not be represented in UNCTAD. U.S. representation will be by the State Department.

Is that correct, and are you working with State so that your interests are not neglected?

Mr. BROCK. That is not correct. We do intend to be there and to be represented fully and adequately, and even if we were not, I would have full confidence in Alan Wallis and his team at the State Department, who have been more than willing to work very closely with us. We have an excellent relationship and I can find no area of criticism in the ability to work cooperatively with our people in his shop.

Mr. FRENZEL. Do you anticipate any difficulties, or rather, do you anticipate actions which could be taken in Belgrade that would be destructive to what we are trying to do in the GATT?

Mr. BROCK. We have not seen yet the final agenda so it is difficult to predict what might come out of Belgrade, but my own view is to be fairly sanguine about the prospects. I don't worry about any organization undertaking any study that it wants to undertake.

I would be worried about steps that could be taken to contravene the authority of the contractual organizations, such as GATT and IMF, but I hope that is not going to happen, and I guess we will have to wait and see.

We are carefully preparing for that meeting and having a number of conversations with both developing and developed partners on the subject.

Mr. FRENZEL. With respect to your discussions with Mr. Jenkins about IMF loans, there is some difficulty. And recently I was in one of the Eastern European countries which had been rescheduled, and one of the implicit conditions of rescheduling was that they would export more and import less, and after I had gotten around the horn of three of those countries, for each the other two were the principal trading partners and all of them had agreed to expand their exports and contract their imports, and it became quite obvious where they were getting in this little daisy chain, which was going nowhere.

We can't have the whole world do the same thing at the same time on account of the answer is going to be nil.

Every country in difficulty who thinks they will be able to do that right away, I think, makes the mistake that while I am concerned about the replenishment or the new authorities and new obligation, new authorities we give to the IMF and the new obligations we accept from there, I think one of the difficulties is that there may not be enough lending.

If we simply lend countries in trouble enough to pay their debts, and do not lend them enough to recover, which in fact means we don't lend them enough to buy more stuff from us so that we can continue our recovery, I think we are in trouble, and I think they are in trouble, and I am personally more nervous that the exten-

sion of GATT lending authority will be too thin than I am worried about it is too expensive for our resources.

Would you comment on that, please?

Mr. BROCK. I very much agree.

I worry because people seem to be focused on the IMF as if that were going to solve the problems.

Most of the lending historically, at present, and in the future has been commercial lending, not IMF.

IMF has pretty well focused on the very specific problem of short-term, balance-of-payment needs. You have to deal with that problem, but the longer term aspect is the more important one, because that is our solution to the problem and it does seem that banks tend to operate, as do others, with almost a pendulum mentality.

We go from one extreme to the other, maybe too much lending in the 1970's, possibly too much constraint now. One way to be sure that these debts are not going to be repaid is to stop economic growth, trade.

The most dangerous threat to the trading system, and to us, is the advent of protectionism, because if you want to be very sure that the debts owed to Americans are not paid, then there is one step to take, and that is to close the market here and there is no way that those debts could be paid. That has the obvious consequence of the potential devastating effect on our own financial system, which means loans would not be available for Americans. You have to keep this circle whole. You can't draw half a circle and expect it to mean anything.

We have to borrow, too. And that is each of us as individuals and as members of an enterprise economy. If these banks get into so much trouble that they are tightening up, and not just on Brazil or the Philippines, but American borrowers also, and you can begin to have a credit shortfall, a real consequence that could stop our growth and our recovery. All of this rolls into one coherent whole. It does require that we do more business with one another, all of us.

Protectionism supports that, but so would a collapse of financing, and we can't let either one happen.

Mr. FRENZEL. I might make one more observation.

Our aims at the GATT, while they were broad, and while they were frightening for a lot of members of the GATT who were in procession, were really quite modest when we think of trying to build a regimen under which the whole world can conduct its trading operations freely and fairly.

For instance, we still do credit over in OECD because that is not in the GATT. It is terribly important, and the GATT is not concerned with currency evaluations, dollar-yen, dollar market; and that is important.

The GATT is concerned with taxes only in a way that I would call peripherally, and there are great differences between the tax systems in the world, and all of these things affect trade more than tariffs any more, perhaps not as much as MTN's or whatever we call them, but do you have some kind of long-range plan for the GATT that will really embrace the trade problem rather than cov-

ering what seemed to be good or what was needed for trade in the late 1940's?

Mr. BROCK. It would be unduly charitable to suggest that we have a long-range plan to deal with that magnitude of the problem, but I sometimes feel like we are trying to fix a flat tire when the problem is with the differential.

We don't have a shop in which you can bring the whole vehicle for repair, and the whole vehicle is in some state of disrepair at the moment. We have rattles and shakes and flat tires and sputtering carburetors all over the place.

One of the things we should explore over the next year or two, no more, is whether or not the existing institutional arrangements are adequate to deal with the complexity of the problem we faced.

If you remember, Congressman, back in the early days, when we first had the conference on the—was it international trade organizations, or something like that—I have forgotten the precise label, but we, at that time, considered a very comprehensive trade organization that would cover financial relationships. It would have covered services, tangible and intangible trade, and put them all into one coherent whole.

Unfortunately, it was the United States again that felt that was a little bit too ambitious, and participated with some others in drawing back a bit and narrowing the focus to just the GATT, and ultimately the IMF.

I am not sure that we ought not to take another look, at least academically, and maybe from that politically, at a larger grouping of these international organizations into some more logical relationship.

Mr. FRENZEL. Thank you. I agree.

Do you think, toward that end, that the current formula of a ministerial every 10 years is useful? Perhaps the ministers should meet more often, and then there would be time to at least spend some effort on long range?

Mr. BROCK. I am torn. I am torn between the thought that we should meet at least every couple of years, and the thought that we should not meet again for 100 years.

I came away with a great deal of frustration, and one of the reasons I was frustrated is that I think in Geneva we saw something a little bit dangerous, and that is the increasing temptation to politicize the GATT.

It is a contract among 88 countries, and yet we began to lay aside economic arguments and talk political arguments. I think that is dangerous.

The value of having ministers get together is that they can rise above—hopefully, at least, the objective is to rise above some petty nickel-and-dime kind of conflicts and get to the larger goals we are trying to establish for the institution.

We did that, but we did it by the skin of our teeth, and we came very close to falling into the abyss of political diatribe, and it would be helpful, I think, to have far more regular meetings of the GATT, and to give a greater sense of what is at stake in what we are trying to construct.

Mr. FRENZEL. We could give the ministers special privileges like 1-minute speeches and special orders, and such. Maybe that would take care of it.

Chairman GIBBONS. Mr. Dorgan?

Mr. DORGAN. You used the term strong dollar, and I noticed that is a term used by the traders, news media, bankers, and others.

In trade issues, isn't a strong dollar really an expensive dollar? Isn't that a translation from a trade standpoint?

Mr. BROCK. Yes.

Mr. DORGAN. That term has crept into our dialog in the last dozen years or so, and we feel great pride in America, particularly when you hear on the news, the American dollar was strong today; in fact, it means the American dollar was expensive today.

It may well be overpriced.

In light of that, and since the Federal Reserve Board's policy has created the expensive dollar on international markets, have you, as the appointed person for trade issues in this administration, had a chance to appraise the Federal Reserve Board as to what their policies have done to U.S. trade?

Mr. BROCK. The answer is, I participate in, I think, every internal discussion on any aspect of economic policy in the administration.

I will make the traditional plea that the Federal Reserve system is independent, but they are fully aware of the impact on our trading results, of an exceptionally strong dollar, and the impact that their policies have internationally.

I should point out that a trading, a U.S. currency that is exceptionally strong, is expensive in terms of others, but not for U.S. citizens. A strong dollar means that we are using higher value dollars to purchase those products that we buy; so, in terms of U.S. dollars, U.S. imports of all—for example, a trading dollar that is very strong is better for U.S. citizens. Our tourists get a better buy, but, more importantly, our consumers get a better buy in energy prices.

Mr. DORGAN. When a soybean producer in America tries to sell that soybean on the international market, he discovers that that soybean commodity is costing the foreign purchaser 25 or 30 percent more than it did 12 months previous, and nothing has changed——

Mr. BROCK. His price could be exactly the same, but they would have to pay more francs or yens or marks for the same soybeans.

Mr. DORGAN. I come from a rural part of the country, and I am well aware of the problem with large grain stocks and low prices, and the difficulty of many countries who need food around the world and their inability to pay for it.

We have the food, and they have the need. In 1979, Congress mandated that the President encourage the use of barter in the acquisition of strategic and critical materials, and, to my knowledge, President Carter did not do anything in that regard, and, in 1982, a USDA report points out that this administration has not, either.

Do you see any opportunity for a significant Federal role in developing barter agreements between countries that have strategic materials that we need and ourselves in trying to facilitate the flow of grain stocks overseas in exchange for things that we need?

Mr. BROCK. Some. I think it is more limited than others seem to think, just in terms of the prospect. A good percentage of our strategic minerals come from a fairly narrow band of countries, not many of whom are major importers of U.S. products, and the Soviet Union is one, but most of them are not major agricultural purchasers.

Thus, the possibility of barter is fairly limited.

There is another difficulty, and that is that most administrations, past and present, have been a little reluctant to intervene too directly in the marketplace.

We have good grain sellers, for example, overseas, very efficient, and for us to try to take over their activity by the process of barter would deprive them of access to markets, and we would be a little cautious about that.

Mr. DORGAN. I understand that during usual or ordinary times. But this is not an ordinary time for agriculture, our grain, surplus stocks, are extraordinary, and the prospect is that they will remain so unless something dramatic happens. In the absence of having the kind of budget we would like to have, a Federal program of price supports, what we need is an aggressive marketing program such as a barter program, or some other aggressive program. Since it is an extraordinary time, perhaps these grain markets may well have to be supplemented or augmented by another approach, including barter.

Mr. BROCK. I don't disagree with that. We have explored a number of alternatives but not yet found that particularly unique circumstance which would advantage the United States in such a magnitude that we would do it, but I don't think there is a resistance to the concept, if, in fact, we could find the right deal.

Mr. DORGAN. But is there an aggressive search going on to determine whether it might make sense? For example, several sources have talked about potential trading partners and barter trades such as Jamaica, Brazil, Philippines, Thailand, and matching them with a list of strategic materials that this country could use. Now, it seems to me that there is no existing Federal mechanism to even arrange barter trades from one country to another because, perhaps, this administration believes that this is not a governmental activity, but an activity that is best handled by Bungie or Continental.

Obviously, it won't be handled by the current grain marketing firms. Thus I am wondering if there should not be an aggressive search to determine whether or not there is a barter system between countries that is workable to try and reduce our grain stocks and at the same time achieve for this country the receipt of some very important materials we perhaps need in the future?

Mr. BROCK. Possibly. The question would better be directed to the Secretary of Agriculture.

We normally in my office don't get into individual transactions of that sort, but we do evaluate them when they are proposed, in the sense of their compatibility with the trading policy we are trying to establish.

Mr. DORGAN. The Secretary of Agriculture generally feels that this is a private sector affair; that private firms ought to handle it, I understand that philosophy. But we have an extraordinary situa-

tion facing agriculture today, and the size of the stocks is extraordinary, and the ability of those who would normally purchase those stocks has diminished because of the worldwide recession, and given those extraordinary circumstances, I am wondering if you, as the ambassador of trade, will be, or are you now, looking at an aggressive opportunity for barter between this country and other countries?

Mr. BROCK. I guess the best I can give you in terms of an answer is to express a willingness to discuss this, and the possibilities, with Agriculture. It is not inconsistent with trade policy to do this. If it were, I would have to be opposed, but it is not inconsistent, if it can be done in a fashion where it clearly creates an advantage for this country.

I understand the emphasis that you put on it.

I don't want you to look on it as something that is going to solve our problems in the short term. At least in the work that I have done in the area, I have not seen the magnitude of market. For example, in the recent deal, when we provided surplus stocks to encourage the purchase of wheat flour in Egypt, there are, to my knowledge, no major minerals or strategic materials in Egypt that could have been used in such an exchange. Maybe there are enough countries around the world where that is true, where the alternative is true, that we could increase our shipments, and I am certainly willing to explore that.

Mr. DORGAN. Mr. Chairman, just one further question.

The Congress, in the last session, authorized $175 billion to be used by the USDA to farm exports through loans and subsidies, which I am sure you are aware of.

I have not seen any status report on what part of that money they have used, or how successfully.

Mr. BROCK. A good percentage of it has been used.

Mr. Chairman, I could submit for the record a list of those.

Chairman GIBBONS. Please do so.

[The information follows:]

Of the $175 million authorized for the current fiscal year, approximately $100 million was spent for the direct credit portion of the first blended credit package to Morocco, Egypt, Yugoslavia, the Philippines, Pakistan, Brazil, Portugal, and North Yemen.

Following is a breakdown of the first package:

Wheat—2.4 million metric tons; Vegetable oil—83,000 metric tons; Corn—350,000 metric tons; Soybean meal—102,000 metric tons; Rice—15,000 metric tons; Cotton—197,800 bales.

Mr. DORGAN. Was a substantial portion of that used in the recent flour transaction?

Mr. BROCK. No, that was a different program entirely.

We used the access to the surpluses instead of the funds that were appropriated last September.

Mr. DORGAN. You indicate that barter trade is not inconsistent with present policy. Could it become part of present policy, if your studies and further analysis indicate it would make some sense from the administration's point of view?

Mr. BROCK. Anything is possible.

I think we would have to establish certain basic criteria, and one is: I would like very much to be sure that the private sector was

not put in a position of having to compete with their own government.

If we could be a facilitator of such arrangements and, in effect, increase net new business and still use the private sector as the negotiator of the arrangement, or certainly not deprive them of the ability to sell something they would otherwise sell, then it could very well fit.

Mr. DORGAN. I thank you very much for your answers.

Thank you very much, Mr. Chairman.

Chairman GIBBONS. We appreciate your participation in our hearings, and you are always welcome.

Mr. Ambassador, this gets us back to the basic question: Is GATT a viable institution for the future? Do we need to make some changes? Are there any ongoing plans to make changes in GATT?

Mr. BROCK. The answer to all of the above is yes.

It is viable. It has contributed mightily to our domestic well-being over the last 35 years. We are doing far more business today than we would have done without the GATT. There is no question about that in my mind, and I don't believe any of my predecessors of any party would disagree with that statement.

The answer to the future is equally straightforward. No organization is going to survive in this kind of tumultuous world unless it improves.

It has to continually adapt to changing economic and global circumstances, which simply states that it has to come to grips with issues ranging from high technology to investment problems, to agriculture, to services, but with all of that, it can do that, and the question is, how best to achieve it; is it directly within GATT or by some combination of countries who get together outside of the GATT and discuss maybe adopting a higher level of self-discipline in order to provide an example to the rest of the world. Is it by some combination of activities, both within and without the GATT?

I am not sure yet that I am prepared to answer that question. If we could get other countries that would be willing to live by a higher state of discipline and even that which is required under present GATT rules, the United States would be willing to do so.

Now, if we can participate with others in evaluating how to improve the GATT, we will do that as well. Fundamentally, we have to take the lead in that kind of an exercise, and there are a number of studies, either presently underway or planned, as to that particular question and what role we should exercise.

The bottom line is, unless the United States does it, it is not going to be done. We have to provide leadership.

Chairman GIBBONS. Well, let me ask you a pointed question here. Do we have any deadlines in our own minds about some of these studies and when we are going to move?

I have watched the GATT now closely for 12 to 14 years, and I have watched it start up the mountains and slide back down.

I am not happy with the progress that has been made. We are to blame.

What is being done, and do we have a timetable on doing something?

Mr. BROCK. Frankly, I would like at least the better part of this year to reach some fairly fundamental conclusions in consultation with a lot of other people, both domestic and international.

Chairman GIBBONS. I would encourage you to do it.

I regret that I was not able to attend the GATT ministerial meeting, and some of my questions are based just upon pure ignorance, but is it too large? Are 88 contracting parties just too many to deal with?

Mr. BROCK. It is getting more difficult, but I don't think I would want to suggest, and I can't imagine anybody else suggesting, that it would be more effective if it were a smaller number.

It is at least worthy of consideration, as to whether or not those 15 or 20 countries that really do world trade should not be willing to exercise more leadership, more involvement in the process through either direct or indirect means.

We are an awfully big productive and stable country, but we cannot carry the load entirely. A lot of others are going to have to participate if it is going to work, and that is precisely what we are discussing now, how best to make it work.

Let me be fair to the GATT, though.

For most of these 35 years, Mr. Chairman, they focused on trade and goods, tangible products with the exception of agriculture.

The burden we have put on this system in the last decade, since 1973, with the world embargo, in world recession, inflation, in shifting from a goods economy to a service economy, in agriculture, all the new sins of export performance requirements, domestic content, things of that sort, none of those were even envisioned 35 years ago.

The fact that the GATT is still there is testimony to its competence and endurance, so it is not all negative.

I think they have done a pretty remarkable job in the face of all of these difficulties, and, as I said to your colleague from Minnesota, it is true that the GATT only deals with a part of the problem, and yet we are asking it to fix the whole thing, and I am not sure that you can do that, so I think we are not at a revolutionary stage, but at a very fast-moving evolutionary stage.

Chairman GIBBONS. I am not at all satisfied with the fact that GATT has not taken up the matter of export financing interest rates, things of that sort, as a distortion of trade.

I think the OECD's voluntary arrangement has been almost worse than nothing. We have made no progress in that at all.

Is there any inclination on the part of the United States to move ahead and to vigorously get into interest rates and bring something up, the subsidy situation, et cetera?

Mr. BROCK. Since I have not had the lead in that particular negotiation, I can take a little more credit for it. Treasury has done a pretty decent job in bringing some mortar out of the cast than existed 2 or 3 years ago. That credit arrangement is far better than that which we had in the 1980–81 period.

The real test will come in the renegotiations that are beginning now, and whether or not we can move the mechanism toward some sort of automaticity that reflects changing markets and the circumstances, and if we can do that, then we will have accomplished a great deal.

I give Don Regan a great deal of credit, because we did not go into that battle with any tools, Congressman. We have unilaterally constrained the Export-Import Bank, and, as a consequence, we had no two-by-four to get people's attention.

One of the things that you have noticed in the President's budget this year is the commitment he made to support up to an additional $2.7 billion in direct loan authority, plus the increase in guarantee authority of a couple of billion dollars that he has suggested.

We have the possibility of a few more tools.

Chairman GIBBONS. I certainly hope that if we grant that, it will be used as leverage, just as I hope the wheat subsidy deal will be used as leverage and not just get us into a constant escalation. And you know, every time we have a wheat surplus, we say we are going to temporarily subsidize it and dump it on the world market. That worries me.

Mr. BROCK. Let me be very specific in assuring you that that is the administration's intention.

We have no desire to begin these things as an extended duration practice, but neither do we have the right to back away from trade practices that disadvantage American workers. We simply have got to find a way to encourage the system to move toward some more rational way of doing business.

Chairman GIBBONS. Does the administration plan to fill the vacancies that exist in your organization?

Mr. BROCK. Yes, sir.

Chairman GIBBONS. Any timetable on that?

Mr. BROCK. Hopefully within the next couple of weeks.

Chairman GIBBONS. Mr. Frenzel?

Mr. FRENZEL. Nothing further.

Chairman GIBBONS. Well, Ambassador Brock, it has been a long meeting, a long morning, and I appreciate the fine work that you are doing and the way you are conducting our policy. Good luck to you.

We will keep the record open until the end of this week for any answers to the questions that were asked.

This concludes our meeting.

[Whereupon, at 12:25 p.m., the hearing was adjourned.]

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